CONFLICTING SIGNALS

There seems to be a disconnect between the employment projections of the Delaware Department of Labor (DOL) and Delaware Economic and Financial Advisory Council (DEFAC).

The latest DEFAC revenue projections (April, 2019) assume an annual growth rate in total Delaware employment of 1.2%. Simultaneously, the Delaware DOL's estimated total employment growth rate for two years is 0.2% and for ten years is 0.6%.

Does the difference matter?

Econometric analysis for Delaware shows a statistically significant relationship between total private employment and total private wages. The boost given to total wages by growth in Delaware private employment fell off considerably following the 2007-08 recession. A preponderance of the jobs added after the recession were in low paying occupations such as waitresses and janitorial services. This was due in part to a shift in job growth from northern Delaware to Sussex County and by the restructuring of the DuPont Company.

Consequently, a total wage forecast equation for Delaware based upon total private employment was generated just using data from 2008 through 2017.

Projections of total private employment were made using both the annual employment growth rates of 0.6% and 1.2%, and then used to estimate annual Delaware total private wages.

Econometric analysis for Delaware further shows both a statistically significant and a highly explanatory relationship between total private wages and annual State of Delaware General Fund Revenues.

When the projected private wages are used to project General Fund revenues, application of the 1.2% employment growth rate overstates General Fund revenues by over $70 million per year compared to the 0.6% growth rate. Cumulatively across 10 years this is an overstatement of $704 million.

Who is right: the Delaware DOL or DEFAC? It is impossible to tell. Nevertheless, both growth rate projections have Delaware on an economic path below that forecast for the nation. The bottom line is caution must be used with regard to State spending.

For the coming fiscal year (2020), according to DEFAC's projection of General Fund expenditures, that caution takes the form of an 11% reduction ($51 million) in grants. Meanwhile, health benefits for current and retired State employees will rise 4%, salaries by 3.7%, and Medicaid by 3.1% (reaching $768 million).

If DEFAC's projection of State expenditures is correct, no legislative action will be taken to curb the current very generous State healthcare benefits and Medicaid regulations. The breathing room will come from cuts in State grants.

Dr. John E. Stapleford
Board Chair of the Caesar Rodney Institute
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